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Who Will Control U.S. Agriculture-- Situation and Alternatives

by

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The economic organizational system for agriculture is of importance to those associated with farm production or marketing and to those dependent upon it for food. Historically farming has been organized in many ways and is organized differently in different parts of the world today. For example, farms range from the minifundia to the semi-feudal estates in South America and from the fragmented hereditary plots of Europe to large corporate farms in the Southwestern part of the U.S. and to the huge state farms in the Communist world.

In much of the U.S. a small unit proprietorship system has prevailed. We, in the U.S., are moving from a dispersed system of a small unit proprietorship type of farm organizational system towards its opposite--concentration in both production and market organization.[1/] If this is the way we want agriculture to go, that's one thing--if we don't, it's quite another. There is concern that concentration will happen before enough people are aware of what is taking place.

So, what kind of world do you want to live in? Does your wish fit better with a dispersed system of farm production and marketing or a concentrated one? Will farmers collaborate with each other in making the rules jointly? Or will farmers' individualism permit control of agriculture to shift into other peoples' hands?

1/ Kyle, R. Leonard, et al, Who Will Control U.S. Agriculture? NCR Extension Bulletin 32, University of Illinois, August, 1972.

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What Do We Mean by Control of Agriculture?

Control is closely related to decision-making. People in general, and farmers in particular, place a high value on their decision-making role. When farmers were numerous and had more political power, they controlled U.S. agricultural policy and the organizational system. Everyone knew who would make the decisions in agriculture--farmers. They ran the farms, controlled farm organizations and elected Congressmen.

Control is shifting and is increasingly being vested in those individuals or firms that make the buying, selling and producing decisions because they: 1) have control of the resources used in agriculture, 2) have access to markets for selling their products, financing, and buying supplies, and 3) have access to technical information.

Pressures for Change

There are numerous persistent pressures for volume production and reorganization of the system. Some are:

1. Increasing technical complexity and specialization of agricultural production.
2. Increasing labor costs that contribute to mechanization and larger size operations.
3. Increasing certainty in annual productivity increases along with improved credit practices that make it possible for larger sized firms to assume greater risks.
4. Improved managerial capabilities.
5. Scarcity of highly productive farm land coupled with the need for nonfarm uses.
6. Effects of tax laws and rules making it easy and advantageous for those with capital to acquire land.

7. The desire of firms to assure a reliable supply of farm products of a known quality that bring pressures to align with business organizations based upon merchandising strategy.

The consequences of more centralized control of production and marketing would differ for producers, for firms supplying production inputs, for firms marketing and processing products, for rural communities, and for consumers. The loss of power, fear of economic domination, erosion of rural values and the uncertainty of the consequences of the changing organizational system for agriculture gives rise to the issue about who will control U.S. agriculture.

Some Manifestations of the Issue

A whole set of related issues are emerging publicly and in legislative halls around the question, "Who will control U.S. agriculture?" Some of these manifestations include:

1. Concern about the takeover of large tracts of land by nonfarm businesses and its effects on present farmers, businessmen and communities. A manifestation of this concern is the legislation before Congress to preserve the family farm. The Family Farm Act would keep nonfarm corporations out of farming. The legislation would prohibit ownership and leasing of land, as well as contracts or integrative schemes.

2. There is concern over integrators or large buyers imposing various conditions on a "take it or leave it basis" through specifications, discounts or premiums, delivery schedules and production specifications. Those on the "inside" may feel at the mercy of buyers while those "outside" see the threat of reduced market success. A visible manifestation of this concern is bargaining legislation before Congress that is intended to

strengthen producer groups and provide countervailing forces in dealing with the firms that buy their products.

3. A third manifestation is the revival of interest in farm cooperatives as a means of achieving some economies of size and market strength on the input side of farming, the output side, or both.

4. Another manifestation is the concern about tax savings provisions that favor higher income people investing in farm land.

The Present Structure

The dispersed individual farm proprietor (even though it may be a multi-man operation or incorporated), still is the predominate form of farming structure. We are talking about farms where half or more of the labor is performed by the operators and their family. Family operated units account for about 80 percent of total farm marketings today according to Harold Breimyer, University of Missouri. Even so, delivery under production contract, integration and corporate operations are responsible for increasing proportions of farm output. He estimates that industrial type corporates account for 5 to 7 percent of the total value of U.S. farm marketings and production contracts account for another 12 to 15 percent.

It is quite evident that a decline of the open market system has occurred. Central markets have disappeared for some commodities and are fading for others. Replacements include direct selling, formula pricing and other contractual arrangements and vertical integration. Central markets for livestock are losing ground but commodity markets for grain thrive.

Wide differences in the marketing system have developed by commodities. Only small quantities (less than 3 percent) of the feed grain, soybeans, food grains and hogs are under contract or integration. At the other extreme

100 percent of the sugar, over 85 percent of the broilers, processing vegetables, and citrus fruits are contracted or integrated. Fluid milk is nearly 100 percent contracted, but is special in that market contracts between cooperatives and processors are accompanied by government enforced marketing orders. Beef, eggs, and turkeys fall between the extremes mentioned.

What Is the Policy Issue?

The basic issue is what type of farm production and marketing organizational system is to prevail and who will control it. It is not concerned with keeping things as they are--this would neither be possible nor desirable.

A leading Ohio farmer recently said, "Integration and coordination will increase. The concern of farmers is, who will control it? Will integration and coordination be backward or forward? Who is to have the decision-making role?" These are very fundamemtal questions. Others are expressing similar concerns. One is Secretary of Agriculture Earl Batz who recently said, "The question of who will control farming in America is the issue which agriculture must face in this decade."

A Framework for Analysis

There are various ways one might analyze this issue. It could be approached through establishing alternatives around: 1) production, 2) input purchasing, 3) product marketing, or 4) government intervention.

The analysis framework chosen is one that centers on organizational control of the production and marketing system. The systems to be discussed are: 1) independent farmers in an open market, 2) a corporate agriculture, 3) a cooperative marketing system, 4) government intervention, and 5) a synthesis--or combination.

Any system of analysis will be an oversimplification of a very complex issue. We will discuss the above as pure systems to expedite analysis, understandings and discussion. This is no different than using capitalism, socialism and communism and fully recognizing that none of these economic political systems exist in the pure form.

My intent is to alert you to a few considerations--not to bore you with details--and to help start the dialogue. I am not advocating any system.

System 1: Independent Farmer in an Open Market

The independent farmer in an open market resembles our current system as it is generally perceived. But this system is being challenged from all sides. The familiar traditional system cannot stay as it is.

The proposed system requires: 1) open market trading or its equivalent in buying supplies or selling products, 2) farm land must be in modest sized units with most landholders being the operators, 3) financing under the control of farm operators, 4) some of the labor is performed by the operator(s) and his family, 5) managerial functions performed by the farmer, and 6) technical information readily available from public and private institutions.

Of major importance to this system is that most economic decisions are made in markets though some contracting is likely.

Farmers would like the retention of independence and community status but aggregate incomes from farming might not be much different under this system than others. Local marketing and supply firms would have important roles to play. The loss of businesses and people from rural communities would be the least from this system. Farmers in an open market probably would ask for, and get, services from government. On the other hand, consumers food costs would be kept relatively low because of the proven farm productivity record and the competitiveness of the system.

If national policy were to encourage an independent farmer, open market system, certain actions are in order. They would include, some or all, of the following: 1) guarantee open markets, 2) end volume discounts that go beyond savings in handling costs, 3) develop innovative and flexible credit practices. Perpetual debt might be an innovation. 4) Eliminate tax advantages to high income investors, 5) design environmental control regulations for average sized farms--not large sized farms, 6) continue some form of government price and income support programs, 7) prohibit agribusiness corporations from producing farm products, and 8) place limits on land ownership by nonfarmers.

Implementation of policies to encourage an independent farmer in an open market system obviously calls for policy discrimination in favor of large numbers of farmers. This system will lose some scale or technical efficiencies versus more concentrated systems but it will gain some pricing efficiencies.

System 2: A Corporate Agriculture

Corporates now produce 5 to 7 percent of the total value of U.S. farm products. Another 12 to 15 percent of the farm marketings are produced through production contracts. The latter includes both cooperative and corporate contractual arranagements.

Farmers generally have not taken seriously the possibility of control of agriculture shifting to the corporate type farming system. They see operating errors and argue that the corporates don't have operating efficiency advantages. That may be true but, corporations in the industrial sector did not always grow because of competitive or effieiency advantages. They had long run growth objectives and achieved success through financial, marketing and management advantages.

The corporate farming system would feature: 1) a displacement of present public marketing institutions like auctions, terminals, market news, etc., with contracts or closely coordinated production and merchandising methods; 2) land control attained by ownership, leasing or contracting. Control need not rest with ownership. 3) Financing of the agriculture division of farming corporates would be through sale of stocks, bonds, loans, mutual funds, limited partnerships, etc.; 4) specialized hired farm labor would replace farm operators; 5) decision-making would be at various levels from corporate headquarters, to division headquarters, resident farm managers, foremen, supervisors and technical advisors; and 6) technical information would come from private sources--internal or external to the corporation.

As farming corporates expanded there would be an erosion of open markets. Today's successful farmers and rural businessmen would be absorbed into management positions; others would gravitate to the employee payroll. Many agribusiness firms would disappear and rural communities would either industrialize or fade away. Farm program costs would decline sharply but the large corporations might get other types of subsidies. Some economies of scale are possible but might be offset by rising labor costs. Food costs might not differ from other systems.

A more concentrated industrialized type of agriculture will develop under the present rules--so doing nothing favors this alternative. To further accelerate this option, policy actions opposite those of the open market system could be taken. Bigger farm payments could be made. Pollution control regulations and systems could give advantages to the bigger operators. Tax policies could encourage more nonfarm capital.

System 3: A Cooperative Marketing Organization

A cooperative dominated agriculture could take many forms. The degree of involvement and size of operation would be much more intensive and much larger than in today's cooperative marketing structure. In this marketing system it is assumed cooperatives would control the first level of marketing. However, from this point on competitive forces would prevail and any organizational arrangement might develop. On the farm supply side some input markets might be integrated or contracted by the cooperative. Others might be left to operate independently.

This market organization features managing markets and assures access to markets. The broad approach would include both 1) bargaining to influence prices and terms of trade, and/or 2) marketing products through a) full supply contracts, b) owning the processing facilities, c) cooperatives processing part of the product supply and negotiating with private processors for the remainder, or d) joint ventures with merchandising firms.

Under this system, the producer would be the financier and laborer. Land ownership would be dispersed. The cooperative would assume some production, management and marketing decisions.

The cooperative system would restrict farmers freedom in decision-making more than the independent open market system but producers incomes from the food system would improve. Agricultural supply and marketing firms would face new competition; some would survive and others would fail depending upon whether the particular input became integrated, contracted or the supplier operated independently. Government spending for farm programs would be reduced. Consumer food prices would be higher than in an open market system.

If national policy were to favor the cooperative marketing system major consolidation of cooperatives would be necessary. For example, all milk, all livestock, or other product procurement and market services in the nation might be handled by one cooperative. This would require not only legislation but a big commitment by producers to join forces (quite an assumption given the disunity of farmers). Legislation might require mandatory cooperative membership and exercise of control by the cooperative through marketing orders, marketing boards, bargaining rules and regulations, or other devices. Granting these privileges probably would be accompanied by closer public supervision to assure the public interest.

System 4: More Government Intervention

Historically, government has played a big role in agriculture through defining property rights, distributing land, controlling acreage used in production, supporting prices, providing credit, financing research, providing technical information, market news and other services.

Under this alternative there would be control within our representative political system to achieve or preserve selected objectives. These might include the number and size of farm units, type of business organization, extent of nonfarm business participation in farm production, farm income and its distribution, consumer food prices, efficiency in food production and marketing, farm investment, and welfare of rural communities.

The type of governmental control could vary, but might approach something quite common in the U.S.--the public utilities. Various devices are used in public utilities including: 1) regulating prices as in electrical rates, 2) regulating marketings as in granting exclusive radio or TV rights, 3) controlling investment as in power plants, and 4) public ownership like TVA, city water systems, etc.

If government were to expand its control of agriculture one means would be through regulating marketings--the volume, quality standards, prices and access of producers. Landholding could be influenced through capital gains and estate taxation. Production rights could be used to control land use. Licensing of farmers and workers would control the number of farmers and farm workers. A new form of credit system could favor younger farmers, perpetual debt or other innovative devices to assist agriculture.

The effects of expanded government control over agriculture would be dependent upon the major objective chosen. For example, if control policies were to enhance farmer incomes, then incomes from farming would be improved but farmers would lose some managerial freedom. It would bring higher land prices and higher consumer food costs. On the other hand, if a plentiful low cost food supply were the major objective then consumers could enjoy lower food prices. Taxpayer costs probably would increase to maintain farm income at some level. The effects on agribusinessmen and rural communities would differ widely.

System 5; The Synthesis--A Combination

We live in a world of rules. There is no "dream world" to which we can flee. We are stuck with the situation and with each other; with an economy in which the man-made rules provide the guidelines of operation and can be "tilted" in various directions.

Whether traditional farmers individually or aggreggtely survive or perish will be determined less by their individual efforts than by rules of the game they play. With the present rules it seems inevitable that small independent farmers will fade away. They will be saved only if new modern rules and techniques are developed.

An adoption of selected features of the pure systems discussed is highly probable. The probabilities are great that under this synthesized outcome each of the organizational systems would be given the opportunity to be represented; but no system would be permitted to dominate.

This system might feature an appropriate competitive balance among the various organizational systems. Producers would retain much of their managerial freedom; corporations would participate within restrictions; cooperatives would play a key marketing role; nonfarm firms would continue supplying inputs to farmers; processing and marketing firms would operate; and government would perform regulative and service functions. This might sound similar to the current system but there would be major changes in the size and number of farm and nonfarm firms, the way the market operates and functions, and other important features.

Obviously the synthesized economic organization--remember all economic systems are man-made--would require legislation. Thus, the type and kind of system that might evolve is highly speculative. Further discussion of this system may be useless; even counter production. We will leave the debate of "what ought to be" to you.

Summary

Farm operators may be more concerned than others at the present over this issue because they are faced with a combination of two developments. They are: 1) the increasing size of farms and concentration of production and 2) greater involvement of forces outside of farming to coordinate production through ownership, contractual or integrated arrangements.

What the rules shall be and what input farmers have in determining these rules is a basic part of the policy issue. There is some reason for pessimism in what farmers will do. Farmers are extremely competitive among themselves in buying out neighbors than in their collective well being.

But rule making is a collective activity. Internal infighting between farm organizations reduces the probabilities of securing legislation that will help establish the rules by which the food and fiber production and marketing system will operate. The ability to work together will be severely tested in the next decade. There is some time for debate--maybe the 1970's. But it will be resolved in the 1980's or it is likely that farmers, farm organizations and society will have left control of the food and fiber system concentrate in the marketing sector.